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STATE FOR NEA/ELA, NEA/RA, EB/IDF/OMA
USAID FOR ANE/mea MCCLOUD AND DUNN
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TREASURY FOR NUGENT AND HIRSON
COMMERCE FOR 4520/ITA/ANESA/TALAAT

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SUBJECT: CBE GOVERNOR ON BANK OF ALEXANDRIA, FINANCIAL SECTOR MOU

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11. (SBU) The Ambassador, USAID Mission Director Ken Ellis and econoff met recently with Central Bank Governor El Okdah, Deputy Governor Tarek Amer, Sub Governor Tarek Kandil and Minister of International Cooperation Fayza Aboul Naga. El Okdah touted the privatization of Bank of Alexandria (BOA), stating that the winning bid, at 5.7 times BOA's book value, surpassed everyone's expectations. He claimed that two of the six short-listed bidders - Commercial International Bank and Greece's EFG Eurobank - withdrew at the last minute after Sanpaolo's offer was announced. The offer was so high that the two banks did not believe they could compete. The losing bidders praised the transparency of the process, however, according to El Okdah. El Okdah predicted the sale would be complete by the end of November and confirmed that the \$1.6 billion was already in an escrow account at National Societe Generale Bank.

12. (SBU) Turning to the Financial Sector MOU and the requirement for annual audits to measure progress on benchmarks, El Okdah said the GOE intends to amend its legislation to bring Egyptian accounting standards closer to International Accounting Standards Board (IASB) standards. However, as is the case for all countries including the U.S., the amended standards will not be one hundred percent identical to IASB standards. Moreover, parliament is unlikely to consider the amendments before 2008, due to the current heavy legislative agenda. In the meantime, El Okdah proposed meeting the audit requirement by providing copies of the legally-required annual audits of the public banks conducted by the Central Accounting Agency using Egyptian accounting standards. An international firm could then "convert" those audits to international standards, identifying any discrepancies between the two standards. El Okdah recognized that the USG has the final say in determining whether or not benchmarks have been met. If the USG determines that the audit information provided by the GOE is not sufficient to prove that benchmarks have been met, then the GOE will have to forego the funds, a point on which Aboul Naga agreed. The Ambassador said he would convey this proposal to Washington.

13. (SBU) Aboul Naga sent a letter to the Ambassador November 12, setting out the abovementioned proposal. Minister of Finance YBG also sent the Ambassador a letter endorsing El Okdah's proposal. Copies of both letters will be emailed to the appropriate offices in Washington. Comment: El Okdah appears to be making a good faith effort to address U.S. concerns about the audits of the public banks while remaining within the constraints of Egyptian law, pending amendment of the law. Post recommends that the proposal be given positive consideration in Washington. End comment.

4. (U) Aboul Naga also sent a letter to USAID on November 6, stating that the GOE has met several benchmarks and requesting disbursement of the funds tied to those benchmarks (\$300 million). USAID is now taking the necessary step to verify completion of the benchmarks and prepare for disbursement of funds. The text of this letter will also be emailed to appropriate offices in Washington.
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